The Mortgage Banker

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OCTOBER 1949

THE ONE AND ONLY TIME DURING THE YEAR WHEN MORTGAGE LENDERS AND INVESTORS GET TOGETHER FOR AN EXCHANGE OF IDEAS ON A NATIONAL BASIS • THIS YEAR IT'S THE 36TH TIME • AT MBA'S ANNUAL CONVENTION • PALMER HOUSE CHICAGO SEPTEMBER 19 TO 21 • YOU HEAR MEN SUCH AS HERMAN W. STEINKRAUS, U. S. CHAMBER PRESIDENT, MEYER KESTNBAUM, PRESIDENT HART SCHAFFNER & MARX AND ACTIVE IN CED POLICY AND RESEARCH • RAYMOND M. FOLEY HHFA ADMINISTRATOR, TOP MAN IN THE BIG U. S. HOUSING PROGRAM • FRANKLIN D. RICHARDS FHA COMMISSIONER • H. R. TEMPLETON NOTED CLEVELAND BANKER • JAMES C. DOWNS AUTHORITATIVE OBSERVER AND ANALYST OF REAL ESTATE TRENDS • JOHN H. SCOTT PITTSBURGH MORTGAGE BANKER • JAMES T. LENDRUM OF UNIVERSITY OF ILLINOIS' FAMED SMALL HOMES COUNCIL WHICH HAS MADE A SIGNIFICANT CONTRIBUTION TO U. S. HOUSING RESEARCH • FRANK M. TOTTON VICE PRESIDENT CHASE NATIONAL BANK NEW YORK—A STAR ON ANY PROGRAM AND MARK BROWN OF HARRIS BANK CHICAGO AND LOUIS WARE OF INTERNATIONAL MINERALS AND CHEMICALS CORP. OTHERS YOU'LL ... AT THIS ONE OPPORTUNITY ... MORTGAGE MEN FROM EVERYWHERE ... ARE PHILIP M.

KLUTZNICK • ... SCHWULST OF THE BOWERY NEW YORK • RODNEY M. LOCKWOOD ... THE HOME BUILDERS ASS'N • GEORGE H. DOVENMUEHLE • AND THIS YEAR IT'S TWO CONVENTIONS IN ONE • THE OTHER IS THE MORTGAGE SERVICING CENTER EVERYTHING ABOUT SERVICING • THERE YOU'LL HEAR JOHN W. KELLY • W. C. NELSON • JOHN F. AUSTIN JR. • JAMES W. ROUSE • LEMUEL J. HOLT • EHNEY A. CAMP • PHILIP F. STEIN • SYDNEY GOULD • WILLIS R. BRYANT • WILLIAM DE HUSZAR WHO'LL HAVE HIS SERVICING MANUAL OUT BY CONVENTION TIME • FALLON A. O'LEARY AND OTHERS • EVERYTHING'S BIGGER THIS YEAR • BIGGEST CONVENTION • BIGGEST EXHIBIT • AND DON'T OVERLOOK THE LATTER • THERE'S PLENTY TO SEE THAT'S WORTH WHILE • PLAN TO SEE IT EARLY AND OFTEN

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Some of those you'll hear at MBA's big 36th annual Convention: left, Frank M. Totton, vice president, Chase National Bank of New York; center, Franklin D. Richards, FHA Commissioner; right, Earle B. Schwulst, president, Bowery Savings Bank, New York.

In this Issue HOW TO MAKE A 608 + H. R. TEMPLETON ON WHAT IS THIS COUNTRY WORTH TO YOU + HOUSING AHEAD + FINAL CONVENTION PLANS

The Mortgage Banker

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SAVINGS BANKS GET STARTED

In the August issue, J. Maxwell Pringle gave you a complete analysis of what the new savings bank laws in New York and Massachusetts mean and their possible impact on the FHA market. You may recall that he said that so far no syndicates had been formed and thus actually the new legislation hadn't begun to function in either state.

It has now. The first trust agreements have just been executed, marking the entrance of the savings banks of New York State into FHAs, on a nationwide basis.

Three separate trusts were set up covering a total of $5,541,000 608 loans on properties in Maryland and Virginia. Banks participating include the Bushwick Savings Bank, of Brooklyn, Community Savings Bank, of Rochester, and the Schenectady Savings Bank, in one trust; the Bank for Savings, Bowery Savings Bank, both of New York City, and Buffalo Savings Bank, in another; and the American Savings Bank, Manhattan Savings Bank, and Seamen's Bank for Savings, all in New York, in the third. In each case Institutional Securities Corp., wholly owned by the savings banks, serves as trustee.

Speculation over the passage of the Sparkman measure has been so intense that FHA's 15th anniversary passed almost unnoticed. Since organization, FHA has done a loan insurance business of $16 billion. It is estimated that no less than 2½ million American families live in homes financed by FHA insured mortgages, including more than 1½ million in new homes built with FHA inspections.

During the first half of 1949, real estate financing amounted to an estimated $5,280,000,000. This is 8 per cent less than for the same period of 1948.

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608s

Procedure—how to speed it
How to plan a 608
How FHA operates
Equity in 608s

By JAMES M. HUCK

RECENT interest shown by many insurance companies in purchasing FHA 608 mortgages, as well as the action of New York savings banks in extending their 608 purchases to the far corners of the country, has been matched by a nation-wide wave of activity on the part of persons and concerns interested in constructing these new rental housing units.

This lively current interest on the part of builders, architects and individuals in sponsoring FHA 608 projects can be attributed mainly to the change in the federal law which now allows a maximum of $8100 per apartment unit, rather than the former limitation of $1800 per room.

This change has been responsible for an unprecedented flood of 608 loan applications, especially in the large urban centers where land costs and the higher cost of construction have been offset by the inclusion in the building of a reasonable number of so-called "efficiency units," in addition to the standard 3 and 4 room units.

The realistic attitude now being taken by various FHA offices toward "unit-composition" and the cost of building new elevator-structures, plus fair and adequate rent schedules, has become the key to easing the urgent need for apartment facilities in densely populated areas, and in, for example, such startlingly underbuilt cities as Chicago. (In that city, an exhaustive survey prepared by the *Chicago Tribune* shows that only 910 family rental units were built within the limits of Chicago in 1948, and only 942 family rental units were erected in its suburban area, a total of less than 1852 new family units in an entire year to serve a metropolis of 4,000,000 people.)

Now we are seeing for the first time in years, beautiful structures going skyward in many key cities, financed with loans that are based on economic principles designed to keep them out of difficulty.

Of course, in neighborhoods where land costs are not excessive, the walk-up project of two or three stories is adaptable, and the variation of unit size can be expected to bring costs reasonably in line with the loan commitment.

When a mortgage banker has a client desirous of building under FHA 608, what primary facts should be recognized in moving toward a 608 commitment? First, there's the *sponsorship:*

» Contractors: It is generally conceded that the largest number of projects are initiated by contractors. It is obvious that such sponsorship generally requires less cash outlay because of the fact that the allowable fee of 5 per cent of FHA's "estimated present replacement cost of the structure" can be used in lieu of cash. Also there is the benefit of the contractor's close association with material firms plus a desire on his part to speed up construction because of his personal interest in the property.

» Architects: The architect, too, is in a preferred position as sponsor, for he may utilize his architect's fee amounting to 5 per cent of the FHA estimated present replacement cost of the structures (including the contractor's fee) in lieu of cash. He, also, often has valuable trade connections similar to those of the contractor.

» Individuals: Although the individual, or his group, may be in a less advantageous position as a sponsor of a rental-housing project than the architect or the contractor, he may ac-

Surprising, say many in the business, how badly informed some mortgage men are on certain mechanics of the 608 operation. Mr. Huck is a specialist in this field and has some pointers well worth careful consideration. He is assistant vice president of Greenebaum Investment Company, a 95-year-old Chicago mortgage banking house and was formerly associated with FHA as regional attorney for the Middle West. Mr. Huck, in these two capacities, has had an opportunity to study the FHA 608 picture from the standpoint of both a mortgage banker and a key government official. He has participated in the legal closings of approximately one hundred FHA 608 loans. His firm has, on several occasions, extended his services to the legal departments of certain of their large institutional investors who have requested his advice as a technical consultant.


J. M. Huck

And in case you've been confused following the crazy quilt pattern of the housing legislative maneuvers, 608 as well as Title I have been extended to November 1 under a stop-gap measure which has passed both house and senate and awaits the President's signature. Title II authorization was also upped $500,000,000. Without this stop-gap legislation, 608 would have ended August 31. The house of course has passed the Sparkman bill.

complish his objective, providing he makes use of every facility offered to him by FHA and his mortgage banking connection.

6 Steps to Intelligent Planning

1. Before the purchase of the site, or even before an option is taken on the land, approval of the location by FHA should be secured.

2. In such cases, where ownership does not exist, securing an option to purchase the land with the minimum amount of deposit is of course a preferable second step.

3. The architect selected should be experienced in FHA 608 procedure and, if desirable to the parties concerned, he may accept a part or all of his fee in stock of the owning corporation.

4. A conference should be arranged with FHA officials as early as possible. The sponsor, his architect and the FHA architectural staff and land planning staff should correlate their ideas. Typical floor layouts and land planning should be tentatively agreed upon. In this manner, much time will be saved and many potential later changes avoided.

5. Preliminary plans and specifications should then be prepared by the architect, based upon the layout that has been agreed upon, as set forth above.

6. The application accompanied by the preliminary plans and various required exhibits should then be placed with the FHA together with the application fee.

As soon as the processing has been completed, the FHA commitment and project analysis will be forwarded to the mortgagee.

Note that up to this point, the out-of-pocket expenditures have been kept to a veritable minimum. Furthermore, the mortgage banker, the builder, the architect and the sponsor should, from the facts now available, be able, with a fair degree of accuracy, to determine the feasibility of carrying the project to completion.

The availability of the commitment and project analysis now makes possible the determination of the financial requirements for closing the case with the attorney for FHA.

>> SPECIFIC CASE: The case we are about to analyze is that of a 21-story apartment building to be known

ANALYSIS OF THE LAKE SHORE-BARRY ESTIMATED REPLACEMENT COST OF PROPERTY as of DECEMBER 31, 1947 (.00 omitted)

New Utilities	$ 341	
Landscape Work	1,184	
		$1,525
Dwellings (from Cost Estimate)	$2,171,564	
Garages	165,743	
Fees		
Builder 5%	116,942	
Architect 5%	122,789	
		$2,577,038
		$2,578,563
Carrying Charges: Financing		
Interest 18 mo. @ 4% on $1,122,950	$67,377	
Taxes, Real Estate	2,409	
Insurance (During Construction)	3,000	
FHA Mortgage Insurance Premium ½%	11,230	
FHA Examination Fee 3%	6,738	
Financing Expense 1½%	33,689	
FHA Inspection Fee	11,230	
Title and Recording Expense	6,750	
		$ 142,423
Legal and Organization Expense		2,500
Total Estimated Cost (Exclusive of Land and off-site construction)		$2,723,486
FAIR MARKET PRICE OF LAND 26,520 square feet @ 3.4879		92,500
TOTAL ESTIMATE OF REPLACEMENT COST OF PROPERTY		$2,815,986

ESTIMATED PRESENT REPLACEMENT COST OF PROPERTY

1. Improvements to Land	$ 1,565
2. Structures	2,398,715
3. Builders and Architect's Fees	246,029
4. Carrying Charges, Financing	142,423
5. Legal and Organization	2,500
6. Fair Market Price of Land	92,500
7. Total Estimated Present Replacement Cost of the Property	$2,883,732

REQUIREMENTS FOR COMPLETION

1.	FHA Total for all Improvements (from Form 2264-W)	$2,646,309	
2.	Less Amount for fees to be paid by means other than cash, as agreed to by:		
	(a) Contractor ....$______		
	(b) Architect ....$______		
	(c) Total	246,029	
3.	FHA ESTIMATE OF CASH REQUIRED FOR CONSTRUCTION AND FEES		$2,400,280
4.	Cash required by Mortgagor's Trade Payment Breakdown or Construction Contract, including Contractor's cash fee, if any	$2,400,280	
5.	Architect's Declared Cash Fee	(NONE)	
6.	CASH REQUIRED BY MORTGAGOR'S CONTRACTS FOR CONSTRUCTION AND FEES		$2,400,280
7.	TOTAL CASH REQUIRED FOR CONSTRUCTION AND FEES (to equal Item 3 or Item 6, whichever is greater)		$2,400,280
8.	Interest during Construction	$ 6,737	
9.	Taxes during Construction	2,400	
10.	Insurance during Construction	3,000	
11.	FHA Mortgage Insurance Premium	11,230	
12a.	FHA Examination Fee	6,738	
12b.	FHA Inspection Fee	11,230	
13.	Financing Expense	33,689	
14.	Title and Recording Expense	6,750	
15.	TOTAL CARRYING CHARGES AND FINANCING		142,423
16.	TOTAL CASH REQUIRED FOR CONSTRUCTION, FEES, CARRYING CHARGES AND FINANCING		$2,542,703
17.	Mortgage Loan		$2,245,900
18.	CASH TO BE DEPOSITED IN ESCROW BY MORTGAGOR		$ 296,803

as The Lake Shore-Barry on the North Side of Chicago and overlooking the park and lake. The sponsors are (a) one of Chicago's leading citizens, an outstanding industrialist; (b) one of the city's top architects, whose firm has been identified with the largest local 608 projects; and (c) an experienced real estate and property management man, who is president of several high-grade apartment hotels.

The building contains 776 rooms divided into 258 units, plus garage accommodations for 82 cars. There is an average of 3.005 rooms per family unit.

The estimated average rent per-room per-month has been set at \$39.53. The average rent per family unit per month has been set at \$118.79. FHA has issued its commitment in the amount of \$2,245,900.

The project analysis is shown in ←—— detail on the opposite page. Item 2 shows that both the architect and contractor are accepting corporation stock in a total amount equivalent to \$246,029. The availability of this amount for the purpose of reducing Item I results in a cash escrow (Item 18) of \$296,803.

The total of these two items—cash and fees—plus inclusion of the land which is worth \$95,000, means there is a total equity in the deal of \$627,832. Carrying this one point further, it means that the FHA C08 insured mortgage is equivalent to slightly less than 78 per cent of the total estimated replacement cost of the property and the equity will be equivalent to more than 22 per cent of such replacement cost!

At this point in this particular case, the required deposits—in addition to cash escrow of \$296,803 — will be \$1500 for legal and organization expense; an escrow for off-site requirements of \$1,360 (or 100 per cent surety bond); the deposit of a working capital fund of \$33,689 (1½ per cent of the loan to be returned on completion of the project); and a letter from the sponsor's attorney certifying that all legal and organization expenses have been paid.

The incentive for sponsorship of such a project is reflected in a fair, allowable return computed on the following basis:

The total gross income (rents) less 7 per cent for vacancies and less operating expenses and taxes shall result in a figure not exceeding 6½ per cent of the FHA total estimate of replacement cost of property, as of December 31, 1947.

The above facts have been set forth in the belief that they will prove of interest to purchasers of FHA 608 mortgages. They are designed to show how precedure can be speeded up and how a substantial equity investment may occur.

If the acute demand for rental accommodations is to be satisfied by private industry, 608 appears to be the most workable medium yet devised.

The Lake Shore-Barry, a 21-story apartment house of modern design containing 258 family units plus accommodations for cars is the specific case analyzed in this story. Set up under FHA 608 with a mortgage of \$2,245,900, it is valued by FHA at \$2,883,732 and will require an equity investment of \$637,832.

Typical 5-story elevator building of modern design financed by Greenebaum Investment Company under FHA 608, contains 60 family units. Mortgage commitment is for \$486,000.

QUESTION FOR TODAY...

What Is This Country Worth to Us ....?

Or what is it worth, then, just as mortgage men interested in preserving our business?

By H. R. TEMPLETON

THIS is the story of a housing experience in Painesville, Ohio; and the fact that there is a story to tell is because there were some people back in 1946 who were convinced that private enterprise could, if it wanted to and tried hard enough, do a better job in veteran housing than anything the government could do. This Painesville experience was the result of a sincere desire on the part of those who participated in it to prove to the veteran that private enterprise was worthy of his support.

Many mortgage men have already heard the Painesville story but not in the same terms as described here. Here, then, is what happened at Painesville followed by Painesville Revisited; and all of it is a curtain raiser to some thoughts and opinions of my own about some trends in our national life, some developments in the mortgage lending field, which seem vitally important to me and which I believe every mortgage lender ought to consider just as important.

The Painesville development was a project of Wallace Green, architect; George Payne, builder; Milton Ludwig, realtor, all of Painesville, with some assistance by the writer, and with financing by The Cleveland Trust Company.

The original program consisted of fifty one-story basement-less houses with poured concrete floor slab, two bedrooms, living room, kitchen, bath, attached utility room and garage, and located on a plot 60 by 200 feet. Radiant heat pipes were placed in the concrete floor slab and an oil-burning heating plant was furnished. Plumbing was copper with copper line to the street water service. The sheathing on the exterior walls was ½ inch plywood covered with ½ by 8 inch redwood siding. The roofing sheathing was ⅝ inch plywood covered with asphalt shingles. Two coats of paint were applied to the exterior of the house. The frame work of the house was 2 by 4 studs on 16 inch centers; the ceiling joists were 2 by 6 on 16 inch centers; and the rafters were 2 by 6 on 16 inch centers. The interior of the house was rock lathe and plaster.

The house was left unfinished to the extent of omitting framing and doors on the two bedroom closets. The clothes closet in the front entrance was not built; linen closet was omitted. All plumbing was placed in the house including kitchen sinks; cabinets with cupboards above the sink were built in. It was considered a good idea for the homeowner to add additional cupboards in the kitchen as desired.

Then, to find the cost of these omissions, one house was completed as described but with a swinging door between kitchen and living room, at a total cost of $189. In addition, it was necessary for the home-buyer to finish his woodwork, decorate the interior and provide floor covering. Some of the owners added an asphalt tile floor covering, while others finished only the kitchen and bathroom with asphalt tile or linoleum and carpeted directly on the cement floor. It was necessary for the home-buyer to insulate the ceiling and furnish storm windows, screens and weather stripping if desired.

The items omitted were deliberately left out in the expectation that the home-buyers could complete their houses at less cost than otherwise. It was our hope that the "sweat" equity put into their house would make it much more *their* home than if they moved into a fully completed property. We had the feeling and still have that "sweat" equity is the best equity that any mortgagee can hope for any owner to have.

It was originally not intended that

This is really two stories in one: first, an account of an interesting experience in home building and home financing in Ohio which came about because certain people were strongly enough wedded to the idea that private enterprise can function just as effectively as government can regardless of the emergency or conditions. Of course what Mr. Templeton and his associates did is no pilot operation which points the way to how any large volume of construction could be handled; but what they did illustrates what determination and willingness to act can do when confronted with a problem such as we experienced in veterans' housing.

H. R. Templeton

The second part of the article is some plain-spoken forward-looking thinking about the conditions that Americans face today with the trends in their national government veering more and more away from the kind of national life that all of us have experienced in the past. What is happening, as Mr. Templeton indicates, is a very broad comprehensive movement, so vast that it is difficult to fully appreciate it in all its aspects. But the time for academic thinking and mere conversation is past; the time for action is here, and Mr. Templeton has some pretty definite ideas about it.

He is well-known in banking and mortgage banking circles everywhere. He has been active in ABA as well as MBA and has headed the former's mortgage and savings division. He is vice president of the Cleveland Trust Company and will address our 36th annual Convention this year.

there would be a storm sewer in the street; thus a minimum of gutters and downspouts were supplied. I believe the estimated price of the installation of downspouts and gutters was $65. Then it was found necessary to install a storm sewer as well as an auxiliary sewer at the rear of about half of the lots to lower the water table in periods of excess rainfall. These were handled by the contractor and charged into the project. Trustees of Painesville Township agreed to grade and hard-surface the street and pay 20 per cent of the cost of the installation of the water main. Sidewalks were omitted.

Add the "Sweat" Equity

These houses were priced to the veteran at $6,400 for two types and $6,500 for another type. In December, 1947, each of the home-buyers was given a credit of $500 as an adjustment on the cost of his home, from which was deducted advances made to the home-buyer for purchases he had requested us to pay for to assist him in completing his house. In December, 1948, the price of his home was further adjusted by credit to his mortgage in the sum of $455. This was a total credit of $955 —bringing his purchase price in two types of houses to $5,445 and in the other type to $5,545. To this figure must be added his estimated "sweat" equity of $500, bringing the purchase price to approximately $6,000.

This project was started in the late spring of 1946. Most of the houses were occupied some time during the fall of 1946 and winter of 1946-47.

The architect received $10 per house for plans consisting of a plot plan, floor plan, which was reversed, making a second floor plan, and three exterior plans which were reversed, making six exteriors. He received a total of $500. There were about two hundred applicants to purchase fifty houses. No real estate commission was paid but the real estate broker received $50 per house for receiving and screening applications.

The builder contracted this project at cost plus 10 per cent. The 10 per cent included profit and overhead, and the overhead included taxes such as social security, workmen's compensation, etc. The builder was content with this arrangement, although it is my opinion that he should have received at least an additional 5 per cent which would have made an increase in the cost of about $250.

This program was originated by the builder, the realtor and myself, representing The Cleveland Trust Company, in a desire, as I explained, to prove that private enterprise could, if it really tried and was willing to inject efficiency and eliminate excesses, do a much better job in veterans' houses than anything promoted by government. The idea was conceived so that we might prove to the veteran that private enterprise was worthy of his support.

The Cleveland Trust Company had excellent success in the original Title I, Class 3 operations when it assisted 500 low income families to secure their homes by lending to them amounts up to $2,500. We loaned approximately $1,250,000 to about 500 families. We had one default; and, as of June 30, 1949, seventy-three families owe us about $80,000. Most of these houses created by an original loan of $2,500 are now in the $7,500 to $10,000 price bracket.

We believed that low-income families should enjoy the privilege of owning their own homes and we were therefore willing to back this project fully.

A Corporation Was Born

It was necessary for the Painesville project to organize a corporation to hold title and borrow money during the period of construction and sale. The corporation was formed and its capital structure was only $500 and that sum was advanced by Mrs. Templeton. An effort was made to secure a non-profit charter; but when it was refused by the state, the first resolution placed in the corporation's minutes was to the effect that the corporation would not make a profit. When the program was finished and the corporation dissolved, Mrs. Templeton received her $500 without interest. Mr. Payne, Mr. Ludwig, and Mr. Alfred Tame, assistant vice president in charge of The Cleveland Trust Company's Painesville office, were directors and officers of the corporation. The stock of the corporation was issued to these three men; and while that stock was pledged to The Cleveland Trust Company to secure all advances, the note contained a covenant on the part of the Bank not to cause a transfer of the stock except upon default of the principal. The Cleveland Trust Company advanced to this corporation on its note the money to purchase the land, pay 80 per cent of the cost of installing the water and to install the storm sewer system and build the houses. No mortgage was taken and the money was advanced as needed on the corporation's note. The interest was charged on such advances at 3 per cent for the period the advances were unpaid. The Township Trustees cooperated to the extent of paying 20 per cent of the installation of the water, and grading and hard surfacing the street. The Cleveland Trust Company committed itself with the responsibility of advancing $250,000 to $300,000 to a corporation whose capital structure was only $500. It was our endeavor to make this lending easy and to eliminate all unnecessary details and expenses which, in this case, because of our confidence in the builder, we believed were not required. However, during the construction period, while we believed there was little if any risk connected with this venture, whatever risk there was, was ours.

Painesville Revisited

My friends in Painesville went on to build 50 additional houses, 1½ stories, no basement, hot air heat, 1,020 square feet, utility room and garage, two bedrooms, living room, kitchen, bath, utility room and garage on the first floor with possibility of the second floor being converted into at least one large and one small room. These houses require about $300 worth of "sweat" equity. They are on a plot of ground 60 by 200 feet and were sold to veterans at $8,500 for two types of house, and $8,650 for the other type. In December, 1948, this price was adjusted by credit of $719.11. Just to use up the vacant lots remaining on these two streets, they are now engaged in building six of the 1-story type of house and nine of the story and one-half type of house; and even in today's market are finding it necessary to fully complete the house except interior decorating, and add a number of things not in the original specifications to use up the $7,500 on the 1-story house and the $8,500 on the story and one-half type. The story and one-half types, both in the original program

and the present program, and the present 1-story house being built permit the realtor $200 for his effort in taking down names and screening prospects, and gives the builder cost, plus 10 per cent for overhead, plus 10 per cent for profit.

The Financing

This program was first publicized in the July 15, 1946 issue of *Time* magazine. The story brought many comments but only one letter of criticism. This criticism was from a realtor who asked some very proper questions as to The Cleveland Trust Company's participation; he then took the liberty of stating what our charges would be, and insinuating an ulterior motive on the part of the Bank in this program. The Cleveland Trust Company eliminated all charges accruing to the Bank—lent its funds at 3 per cent interest, and charged interest only during the period of the use of the money. The Cleveland Trust Company accepted class 501 loans for 100 per cent of purchase price from every buyer who wished that type of financing.

This program was a small one and received the spontaneous and wholehearted cooperation of architect, builder, realtor and financial institution. We all realized that the job was being done as close to cost as possible. To all of us it seemed constructive because it furnished housing to the veterans and their families at a price they could afford and with a debt they could carry even in less prosperous times. It was a civic program and the originators hoped that it would be a sort of a pilot operation that would encourage others in other towns to weigh their responsibilities to the veterans and to the future welfare of our country. It was hoped that it might cause the great army of veterans to believe in and support the private enterprise system.

The veterans' problem was with us. No one thought or suggested that all business be done on the basis of this project; but we did feel that the veterans' housing problem should be solved, by sacrifice, if that was the proper way; and that then we might return to our normal free enterprise way of life instead of some system foreign to our traditionally accepted democratic processes.

When the Burden Begins

When we require too much of a wage earner's income to service the debt on his home, we deprive him and his family of many comforts and pleasures to which they are entitled. Under those conditions, the home becomes a burden. It does not permit the happiness that a homeowner's family should enjoy, it defeats all the purposes for which it was acquired except shelter and furnishes only sad protection to an unhappy family and possibly ends in loss and bitterness.

A venture in ownership which ends in loss and bitterness is psychologically far worse than the bad debt created. People who, by circumstances beyond their control, are swept into disastrous undertakings that result in loss and disillusionment, are ripe for the first silvery-tongued demagogue who promises them safety and security bestowed by a paternalistic government. People who fail to control their own destinies are likely to accept a promise of security at any price rather than fight to retain their individual rights and liberties. When this happens, private industry and free enterprise will become things of memory.

Are We Blameless?

Mortgage lenders, I'm afraid, have contributed to the present unwarranted prices of homes and must accept their share of responsibility for the next mortgage default period. Many have disregarded the principles of mortgage lending, have abandoned their position as mortgage bankers, failed in their duty to would-be home-owners, have placed an unfair responsibility on the insuring agencies, and will ultimately add to the debt of the taxpayers of this country.

Being insured or guaranteed does not in any way excuse us from exercising the knowledge and judgment credited to us, or at least to the positions we occupy. We cannot sit idly by and permit practices unhealthy to mortgage finance to creep in, or to permit inflation of mortgage credit to raise the price of homes for our

citizens and burden them with the debt that may prove at a later date to be impossible to carry.

It All Came True

On September 23, 1943, in speaking on a panel discussion of that year's MBA convention (and referring to what now appears to me to have been some very mild proposals), I said we were getting ourselves in a position to make loans to veterans and anyone else who could find a piece of land and then qualify himself and that land to some government agency. I stated we were getting ourselves in a position where we could relax our thinking and effort to determine what constituted a good loan and that we would likely put a loan on anything to anyone that the government or a government agency would insure.

I said further that when the idea of government paternalism as applied to real estate was born, our courage fled. I stated that if any group yells loud enough, it will get plenty of government paternalism, but that it could then say goodbye to its freedom of action and possibly to its business. I said that for every paternalistic favor we receive, we give up something. We permit greater control over affairs that we ourselves should control. We become less of a principal and more of an agent. It would end in the government being in every phase of business that permits itself to be the recipient of paternalism. I stated that unless we took a good look and acquired courage and began running our own business, we might have none to run.

If we look back over that road, we must admit that many of the statements have been truths. There have been great changes in government guarantees. We have progressed from FHA's 80 per cent of a conservative appraisal to 95 per cent of what is known as a "realistic value"—whatever that means—and to 100 per cent at 4 per cent interest under the Service Men's Readjustment Act. And now we have come to direct lending by the government as proposed in S. 2246.

These matters in 1943 would have startled us. Just where is this road leading?

Following England's Lead?

In 1935 I sat in a round table discussion with a titled Englishman, a disciple of Lord Keynes. He told us that his group was at that time promoting government participation in mortgage loans on homes up to 95 per cent of value. In fact, he was at that time promoting for English consumption many of the things now part of our own laws. He said they had no intention of balancing their budget and reducing their debt. We have had statements of better intentions than that but the results have been somewhat comparable. If you want to know where the road is leading us, just take a look at England's financial position at this time.

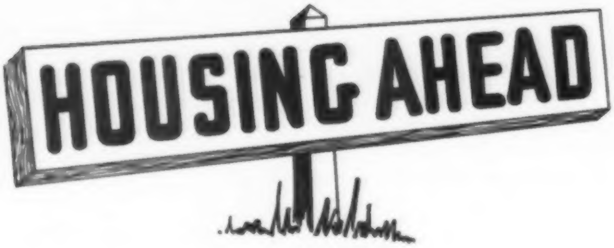
I am shocked and alarmed at the apathetic acceptance by private industry and the mortgage industry of government interjection into all types of business. By private industry I mean capitalists, workers, industrialists, merchants, doctors, lawyers, farmers, builders, all breeds of banker—including all and excepting none. Let's be frank and admit that much of this acceptance is caused by a desire on the part of each to accept government paternalism beneficial to himself regardless of its effect on others or the free enterprise system or the welfare of the country.

Danger Ahead

This is selling our heritage at a very small profit which will accumulate into a very material permanent loss. When are we going to awaken to our dangers and stand shoulder to shoulder in an effort to regain from government those liberties we have either bartered or lost to government?

When are we going to acquire some courage and start opposing all legislation contrary to the best interests of our country and the free enterprise system even though that legislation may favor us? When are we going to revive the courageous patriotism displayed by our forebears and aggressively oppose *all* of these so-called new ideas, promulgated as profound panaceas by our "braintrusts" and "do-gooders"? Are we going to participate in the rape of individual freedom and private enterprise by permitting the politicians to tax the great productive class of this nation out of existence to support impractical social legislation—fostering more and more dependence of the masses—to maintain and continue

(Continued on page 12, column 3)



A lot of it and a good deal the public kind; this time we'll see how accurate the public housers' claims have been

WITH the legislative interest of most mortgage men still centered on the outcome of the Sparkman bill with its threatening direct lending provisions, the wheels to get the Housing Act of 1949 moving have begun to turn. The government has invited more than 500 local housing authorities in 42 states to file requests for what they think they should get out of the housing deal. Some of them didn't have to be invited; the ink on the President's signature was hardly dry before many municipalities had their representatives in the capital with plans ready to go.

Thus begins an entirely new chapter in our much-debated public housing experience. Public housing isn't new, but this time there is more of it, a good deal more. The government has been helping local communities build and operate subsidized low-rent projects for a dozen years. The U. S. Housing Act of 1937 authorized loans to get dwellings built and provided annual subsidies to keep rents low. Some 192,000 units in 268 localities are now operated under this program. The new law broadens the setup, increasing the available loan money to $1,500 million and permits the government to spend up to $308 million for subsidies each year for the next 40 years.

»IT'S REALLY HERE: Public housing is really here this time. As one student of the whole business recently observed: this time we're going to see once and for all what place public housing has in our democratic, capitalistic set-up, whether it actually will do what the advocates have long said it would and, most important, whether the country will foot the bill for it. He has something there because regardless of opinion, it will always be a matter of the many footing the bill for the shelter of a few.

How will the program affect the mortgage business? Certainly no clear-cut conclusions can be drawn now, but the general opinion seems to be that:

» The program won't get off to a fast start. The planning stage comes first—in fact, has started. Construction will materialize rather slowly and probably not as many as 50,000 units can be built the first year.

» When it gets rolling, public housing will be in sharp, active competition with private builders in a number of ways, particularly in the contest for labor and materials. Many profess to believe that this will prove to be most serious when the program gets in full swing.

» The program is likely to keep construction costs high. Certainly there is nothing in it that would help bring them down.

» The possibility of tax reductions is considerably lessened by the great cost of the program. Local tax revenues will suffer in proportion.

» But in contrast some of the country's worst urban areas have at long last received the death knell; and their passing will be a fine thing.

What's the extent of this effort? That's a question for some interesting speculation. Initially, the new law provides for:

» 810,000 government housing units in six years with annual subsidies of $308,000,000 over a 40-year period—or more than $12¼ billion. Number of units is 135,000 annually. The President can up it to 200,000 annually, but under the law, 810,000 is the over-all limit. That's the present law. Once this sort of thing begins, experience has been that it's hard to forecast the end. The history of RFC may well be an interesting parallel and an indication of what to expect. Set up by President Hoover as an emergency agency, it did a job, probably a very good job. The emergency is gone, but RFC isn't. Instead it's now asking for an increase in its loan authorization of from $2½ billion to $5 billion. Once these things get going, it's difficult to close them down.

» A five-year slum clearance program with two-thirds paid by the federal government and one-third paid by the local governments. Federal loans of a billion dollars and federal grants of $500,000,000 are authorized.

Where, how and by how much will it influence the residential picture? Once started, all agree it will be a big factor, so big, says one observer, that it may account for around 30 per cent of all residential construction with 20 per cent in the low rent public housing.

It may also change some very basic trends in building and neighborhood development, too. Obviously, the most immediate results are likely to be seen in the big metropolitan centers but all states will pay their share. *(See table, page 11)*. And these developments will no doubt be in close-in urban areas which, in turn, may mean a significant halt in urban decentralization. That's looking a little way ahead, of course, but it seems a plausible conclusion.

»HOW IT WORKS: How's all this going to get started, where does it begin and who does the beginning?

Before a federally-subsidized housing project can be built, the local authority must determine that a need exists for low-rent public housing and that the need is not being met by private builders. The Public Housing Administration will make a small initial loan to cover the cost of planning a proposed project. The community authority then picks out a building site, has it appraised, gets architects and engineers to draw up plans, and makes estimates on the cost of building and operating the project.

The cost is limited by law. Under the act the price of building and equipping the dwellings ordinarily cannot be higher than $1,750 per

room, exclusive of the cost of land and other non-dwelling facilities. But if a community can show "acute need" for low rent housing and can't stay within the top limit, the government permits up to $750 more per room to be spent.

» $25 A MONTH: PHA has made various estimates of the amount of subsidy it may have to put up to run the average low-rent housing project. One guess is that maximum federal contribution would amount to $31.69 per dwelling per month. On the basis of expected average operating cost and rent, the average federal contribution would be about $24.49 per month per dwelling.

Each city or village that has a low-rent project must make a contribution to keeping rents low by exempting the project from all real and personal property taxes. All 42 of the state low-rent housing laws now provide for this.

Slum clearance will be slower getting under way than construction. This will call for a new set-up within HHFA to deal directly with municipalities that want federal help in getting rid of their slums. Several cities have already worked out programs which they're ready to submit to the federal agency for approval, when the program gets started. These include Chicago; New York; Omaha, Neb.; Norfolk, Va.; Cleveland, Ohio; Providence, R. I.; St. Petersburg and Miami, Fla.

Though the legislation provides only $25 million the first year for loans for slum clearance, informal requests already received would run better than $100 million. In the second year, beginning next July 1, slum clearance lending up to $225 million has been authorized.

» STATES IN IT TOO: And the federal government's big venture into housing isn't all by any means. The states are doing much the same thing. Little noticed, on a broad over-all basis, are the great number of new housing laws which have been passed in various states or will be up for consideration in the near future.

Some of these state laws embrace new conceptions of the role of government in housing, just as the new federal law does in many respects. Others follow patterns already established.

A series of bills enacted by the 1949 Pennsylvania legislature is designed to spur at least $50,000,000 in low-rent housing construction during the next two years, with the possibility that, with federal participation, the total may go up to $100,000,000 or $150,000,000.

Included in the new Pennsylvania laws is a $15,000,000 state appropriation for outright subsidies to private and public builders and redevelopment authorities. Of the total, $10,500,000 is earmarked for subsidies, up to 35 per cent, to public and private builders willing to build homes with rentals controlled by the state for at least 25 years. The balance is set aside for slum clearance and urban redevelopment.

Veterans and persons displaced by housing projects will be given preference for five years in the rental homes built under the Pennsylvania program. Through the subsidies to successful low bidders among private capital, private builders or public housing authorities, the program aims at providing home units renting from $50 to $65 monthly for persons earning less than $4,500 annually.

» NEW JERSEY TO ACT: New Jersey will vote in November on a $100,000,000 bond issue to backstop state loans to private builders and to local public agencies for construction of low-rent housing and slum clearance. Efforts will be made to get the program under way through revenue-anticipation bonds. It is hoped to provide some 45,000 apartment units renting at $45 to $55 per month, but nothing in the new housing law restricts rentals to those figures.

Under the New Jersey program the state will loan money at low interest rates to private building companies first and then to local housing agencies. The proposed $100,000,000 bond issue would be used only if a market failed to develop for revenue-anticipation bonds.

Enacted in Wisconsin was a bill providing for the expenditure of a $16,000,000 state veterans' housing fund. The new law allots 20 per cent of the state fund, or approximately $3,200,000, for outright grants to local housing authorities, which usually plan low-rent apartment projects. The other 80 per cent will be used for second mortgage loans to veterans or to cooperatives. Eligible houses would cost less than $10,000, but money could be borrowed for improved existing housing. If the loan portion is not all used as rapidly as expected, the amount allotted for housing grants will be raised to 40 per cent.

The Wisconsin legislation became possible after the state's voters ap-

Everyone Pays for Public Housing

Everybody pays for public housing whether they get any or not. Here is each state's share of the big new $14.4 billion housing bill, counting only the non-returnable outlays on the part of the federal government and based on the proportion of total income tax which each state paid last year. Note particularly the shares of Iowa, Kansas, Oklahoma, South Dakota, Utah and Wyoming. These states don't have laws permitting the creation of local housing authorities; so at first they won't share in the program at all. (Last 000 omitted in table.)

Alabama	$ 115,200	Maryland	$ 504,000	Oklahoma	$ 129,600
Arizona	43,200	Massachusetts	547,200	Oregon	144,000
Arkansas	57,600	Michigan	705,600	Pennsylvania	1,152,000
California	1,310,400	Minnesota	432,000	Rhode Island	86,400
Colorado	115,200	Mississippi	43,200	S. Carolina	57,600
Connecticut	259,200	Missouri	374,400	South Dakota	43,200
Delaware	72,000	Montana	43,200	Tennessee	144,000
Florida	158,400	Nebraska	115,200	Texas	532,800
Georgia	158,400	Nevada	14,400	Utah	43,200
Idaho	43,200	New Hampshire	28,800	Vermont	14,400
Illinois	1,296,000	New Jersey	460,800	Virginia	158,400
Indiana	288,000	New Mexico	28,800	Washington	230,400
Iowa	187,200	New York	2,332,800	West Virginia	86,400
Kansas	144,000	N. Carolina	158,400	Wisconsin	288,000
Kentucky	115,200	North Dakota	43,200	Wyoming	14,400
Louisiana	115,200	Ohio	864,000	Hawaii	57,600
Maine	43,200				

proved by a narrow margin a state constitutional amendment to permit the state to provide financial aid for veterans' housing.

Action taken this year by the New York State legislature included the enactment of legislation authorizing referenda in November on three housing propositions: To increase the State loan fund for public housing by an additional $300,000,000; to raise the maximum annual limit on new subsidy contracts from $1,500,000 to $2,500,000, and to increase from $13,000,000 to $25,000,000 the annual subsidy for public housing.

Also enacted was a bill creating a 132-member state-wide committee to assist in efforts to bring down the costs of housing construction. Members of the committee include representatives of the building trades, contractors, members of the engineering and architectural professions, officials of savings banks and life insurance companies and representatives of the public.

>> TO SELL BONDS: Under a new Connecticut law, that state's former $45,000,000 bond-guaranteed program to finance construction of low-rent housing units will be expanded to $65,000,000 in bonds. The program also was changed so that instead of the state guaranteeing housing bonds issued by local authorities, the State will float a general bond issue and re-loan the money directly to the authorities.

The Connecticut program aims at construction of at least 6,500 housing units for rental to war veterans and low-income families for between $38 and $40 a month. An additional $30,000,000 part of the new program authorizes the state to finance construction of 3,000 single-family homes for sale to low-income families or veterans. Veterans will not have to pay anything down and non-veterans will make small down payments.

California's legislature provided for a referendum next year on a $100,000,000 bond issue for continuation of the state's home and farm purchase program of loans to war veterans. Another new California measure provides for construction loans to war veterans under the low-interest farm and home purchasing plan. California veterans heretofore could get state assistance in buying completed homes only.

>> OHIO'S LAW: Ohio has a new law designed to enable cities to eliminate slum and blighted areas. Besides liberalizing bond issue requirements, it allows cities to purchase or condemn blighted areas and then sell or exchange the land for redevelopment by private enterprise.

Maine's legislature passed an enabling act for low-rental housing projects, with a local option clause. The measure will permit acceptance of federal funds for local housing projects.

A bill enacted in Nebraska cleared the way for insurance companies to enter the rental housing field in that state. Insurance companies with capital and surplus of more than $5,000,000 or any non-stock company with surplus of that amount, may take advantage of the new Nebraska statute. Under the measure, the project must be comprehensive and low-rent units, and provide living quarters for at least 50 families.

Idaho's legislature enacted a bill providing that life insurance companies may acquire real property as an income investment.

And so it goes, the same all over it seems. For the average mortgage man, the Sparkman bill is the threat of the moment because it is the most direct frontal attack on our area of the economy; but the ultimate effects of the Housing Law of 1949 may in the end exert more influence on the trend of private enterprise in our field.

WHAT'S AMERICA WORTH?

(Continued from page 9)

themselves in power? History tells us that when productive capital and labor are taxed and legislated out of existence by a nation, that nation crumbles. Let the lender remember that direct government lending is on our doorstep; and when it arrives, he will jump at the command of the federal authorities "or else." Let the home-builder reflect that public housing will not be done by him when the government takes a greater control over our housing. The material men will probably sell at government prices; the sub-contractor will perform in accordance with instructions; the laborer's vote may not be quite so necessary, and he will work the hours and at the price dictated by someone in federal authority.

Let's not say that it can't happen here—it has happened in other countries. Britain today controls what its citizens eat, what they wear, the building and repair of their homes, who can drive an automobile and where he may go, who can kill a pig, and the picking and selling of small green onions. Those are six of their rules; and they have approximately 24,994 more. It takes two million Britains to enforce these 25,000 rules on 47,000,000 subjects. Don't forget that England once was the Cradle of Liberty.

Some say we have had a complete breakdown of our moral structure. While that may not be completely

true, I think we must admit that it has been damaged in spots. Too frequently we read about some dishonest or improper act on the part of someone high in government—and then turn to the financial page, the baseball news or the comics without being greatly disturbed by such an event. We cannot claim that our morals are in too good a condition. We do little or nothing about it except to importune a government to make it just a little easier by passing laws favorable to us regardless of the effect of those laws on others. Then others importune the government to pass laws favorable to them regardless of their effect on us. In fact, our lawmakers have now gotten smart—they include all things in each law, thereby insuring themselves of much support and little opposition.

Are we so gullible that we can believe that we will never again have some kind of a recession or depression accompanied by a mortgage default period?

In the early 1940s, I said we could not have a repetition of the real estate and mortgage difficulties we experienced in the 1930s because we were not creating the mortgage debt as we did in the 1920s. We have, in the 1940s, been creating mortgage debts at a greatly accelerated rate; and I cannot believe that we can escape paying the price of our indiscretions. We never have been able to escape.

The Serviceman's Readjustment Act, as relating to real estate is, in my opinion, one of the most damaging to those it was intended to assist, pieces of legislation ever enacted in this country. The original guarantee was $2,000; and almost immediately the price of every house available for a GI to purchase increased by the amount of the guarantee. That didn't seem to be quite "welfare minded" enough, so they raised the guarantee to $4,000 and immediately the price of all houses available for a GI to purchase went up another $2,000 or a total of $4,000.

Just why this result was not foreseen, I cannot say. It does not take very great economic perception to realize that when you grant $4,000 credit to at least 10 million people and limit the expenditure of that credit to one certain field, something is going to inflate.

The social thinkers have not as yet given us the answers as to what we are to tell those boys when values recede and they find themselves bound to a contract stretching over a period up to twenty-five years to make payments, in many cases to the limit of their full employment income, to retire a debt on a home for which they paid too much. They haven't as yet told us what we are to tell the boys who, through reduction of income, illness or loss of employment, have lost their homes, whatever cash they paid down on the purchase of that home and the theoretical equity they accumulated by payments which in many cases were severe enough to deprive themselves and their families of other comforts and pleasures they have the right to expect.

Don't forget that the GI who carries out his own contract, is also going to have to assist, by taxation, in carrying out the burden occasioned by those who default. These matters are blithely ignored, but financial institutions are being continuously threatened with direct government lending, are being accused of failing to cooperate with the veteran's effort to secure a home. Some of us have the temerity to disagree with an unrestrained promotion of inflation in the home owning field, which can react only to the detriment of those who believe that they were being helped.

The Mortgage Bankers Association Convention meets in Chicago on September 19. How many of us will be willing to recognize our responsibilities to the homeowner, to our institutions, and to the welfare of our country by promoting lending policies based on sound principles even though currently not as profitable as following the illusionary trail and policies promoted by a starry-eyed group who ignore sound lending practices?

When you determine which course you will follow you are giving yourself the answer to what is America worth to you.

1200 REGISTER ADVANCE FOR BIGGEST MBA MEET

Almost 1200 MBA members had registered in advance, as of August 25, for the Association's 36th Convention at the Palmer House, Chicago, September 19 to 21, indicating that it will be the largest annual meeting yet held. Reservations for the Bankers luncheon, cabaret party and other events are pouring in, further indication that all activities will be well attended. Life companies are especially active this year in arranging functions for their correspondents.

Most members will be just about ready to leave for Chicago when this issue of THE MORTGAGE BANKER arrives; but let it be a reminder that it is still not too late to make your plans to attend. Write or wire for hotel reservations and there is every assurance that you can get what you want —except suites, of course. They've been exhausted for months.

It's sure to be a convention that no mortgage lender or investor will want to miss. For one thing, the program appears to be one of the most appealing the Association has ever offered—and, to repeat, it's two conventions in one this year. First, there are four general sessions filled with top flight speakers, which also means that you're being given plenty of time for renewing acquaintances and making contacts. Second, is our new Mortgage Servicing Center which is all about servicing.

The list of speakers, it seems to us, is about as distinguished a group as anyone could hope to hear at any national convention. You'll hear:

Herman W. Steinkraus, president, U. S. Chamber of Commerce, Washington, D. C.

Meyer Kestnbaum, president, Hart Schaffner & Marx, Chicago.

Mark A. Brown, executive vice president, Harris Trust & Savings Bank, Chicago.

Louis Ware, president, International Minerals & Chemical Corp., Chicago.

Frank M. Totton, vice president, Chase National Bank of New York.

Joseph R. Jones, vice president, Security-First National Bank of Los Angeles.

Philip M. Klutznick, president, American Community Builders, Inc., Chicago.

(Continued on page 15, column 1

TO DISCUSS NORMAL ECONOMY RETURN

Mark A. Brown

Louis Ware

The question of how, when and in what manner this nation will eventually adjust itself to something which we can agree on is a "normal economy" has been uppermost in the minds of Americans during the past two years. Many have been ready to believe that the readjustment was at last at hand at various periods since September of 1946; but the answer still seems to be in the future.

Meeting the Return of a Normal Economy is the label for one of the sessions at the MBA's 36th annual convention when

Meyer Kestnbaum, president, Hart, Schaffner & Marx, will present the viewpoint of private business.

Mark A. Brown, executive vice president, Harris Trust and Savings Bank, Chicago, will present the viewpoint of money and credit and

Louis Ware will present the foreign relations viewpoint.

Mr. Kestnbaum is active in the Committee for Economic Development and is a director of the Chicago and Northwestern Railway and other companies.

Mr. Brown is one of the Middle West's outstanding bankers and a director of the Rock Island Railroad and a long list of other companies.

Mr. Ware's career began in mining back in 1917. He has worked up from transitman in the Arizona copper country to his present position. He served the Guggenheim interests in Chile and is an authority on conditions and opportunities for American interests outside our borders. At the moment he is in Europe and more recently has been in North Africa. He will have some first hand observations on developments abroad.

Earle B. Schwulst, president, Bowery Savings Bank, New York.

Franklin D. Richards, FHA Commissioner.

Rodney M. Lockwood, president, National Association of Home Builders.

James T. Lendrum, Small Homes Council, University of Illinois.

Harry R. Templeton, vice president, Cleveland Trust Company.

Raymond M. Foley, administrator, Housing and Home Finance Agency.

George H. Dovenmuehle, executive vice president, Dovenmuehle, Inc., Chicago.

Samuel E. Neel, MBA Washington Counsel.

Aksel Nielsen, MBA president.

Lindell Peterson, president, Chicago Mortgage Bankers Association.

Then, at the Mortgage Servicing Center, you'll hear:

Efficient Servicing Means Good Public Relations. — John W. Kelly, Eastern Mortgage Service Company, Philadelphia.

How Manual Operations Can Be More Efficient.—W. C. Nelson, Eberhardt Company, Minneapolis.

Internal Coordination of Servicing Functions.—John F. Austin, Jr., T. J. Bettes Company, Houston.

Savings Through Use of Cost Accounting.—James W. Rouse, Moss-Rouse Company, Baltimore.

Has IBM Equipment a Place in Mortgage Loan Servicing?—A representative of Stockton, Whatley and Davin Company, Jacksonville, Fla.

Effective Methods for Selecting and Training Servicing Personnel.—Lemuel J. Holt, W. A. Clarke Mortgage Company, Philadelphia.

How Mutual Understanding Can Cut Servicing Costs of Agent and Investor.—Ehney A. Camp, Jr.

Handling Escrow Funds Effectively. — Philip F. Stein, vice president, Draper & Kramer, Inc., Chicago.

Mechanical Bookkeeping—When to Install and How. — Sydney Gould, treasurer, The Lomas & Nettleton Company, New Haven.

Effective Loan Servicing by Commercial Banks. — Willis R. Bryant, assistant vice president, American Trust Company, San Francisco.

Mr. Camp, who is vice president of Liberty National Life Insurance Company, Birmingham, is also moderator and Fallon A. O'Leary, Cornet & Zeibig, Inc., St. Louis, is discussion leader.

REAL REASON . . .

Why Direct Mortgage Lending Is Proposed

REFUSAL of the government to increase the VA interest rate to 4½ per cent to bring it in line with the FHA rate and make veterans' loans as attractive as other investments continues to plague the mortgage market. Back of the VA's refusal is the shadow of the various veterans' organizations who seem to be firmly convinced that the 4 per cent rate is right and that no change should be made.

Recently an editor of the *American Legion Magazine* wrote a piece on the subject. The fact that one who should be well informed in this regard isn't informed at all reflects the widespread misinformation.

"Banks are loaded with money which is screaming for borrowers, and 4 per cent is good money for government-guaranteed loans," he said. "Our government savings bonds earn much less.

"The trouble is that lenders can snub GI loan applications because the government, in another phase of its operation, is rapidly putting the veteran out of business as a borrower under straight GI Bill terms.

"Under FHA the government will guarantee 100 per cent of a home loan bearing 4½ per cent interest, whereas under the GI Bill it will guarantee only 50 per cent of a loan yielding 4 per cent. Since nobody can force a lender to make a GI loan, lenders can, and many do, force veterans to use costlier FHA loans by refusing them GI loans on property which FHA would approve for its 4½ per cent Title II program.

"That is how it is working generally today. Not only is it hurting the veteran, but it is hurting those scattered lenders who cooperate fully with the GI program. They do all the GI business that's being done as intended under the GI Bill and risk tying up too much of their capital in long-term loans.

"Their rivals see them as the last remaining obstacle to their desire to force all veterans to use 4½ per cent loans. By upping the GI rate to 4½ per cent this final obstacle to holding up veterans could be removed.

"Rather than jump on the bandwagon and help the veteran by soaking him an extra ½ per cent we'd rather go along with the Legion's 'politics' on this matter.

"The Legion says the veteran needs and deserves preference in home loans, as Congress said he did in the GI Bill.

"The Legion says that perversion of the government-supported FHA loans into a weapon against veterans must stop, and that GI loans at 4 per cent must work again as they have worked in the past for nearly 1½ million veterans."

This sort of thing is not helpful in any way. The editor has utterly ignored the real reason why investors aren't buying GI loans in the volume they formerly did.

It is clear that the principal reason why the direct lending feature turned up in the Sparkman bill is that the 4 per cent government-controlled VA rate is entirely out of line with the present market.

W. A. Clarke, president of the W. A. Clarke Mortgage Company, Philadelphia, explained the matter clearly to members of the house banking and currency committee when he testified in opposition to the house version of the Sparkman measure.

"Why is direct lending suggested?" Clarke asked. "Private finance has been able to do an adequate job of supplying the housing market with mortgage funds. The cost of money is almost the only element of housing cost which today is the same or less than it was before the war. Why then should it now be necessary for the government to get into the direct lending of mortgage money? Any in-

vestor in mortgage loans will quickly give the answer: the interest rate as set by the government at 4 per cent is too low to be attractive.

"The FHA has had little difficulty getting private investors to purchase its paper secured by individual dwellings where the mortgage carries a 4½ per cent rate. These loans are attractive in that they are fully insured. It is reasonable to assume that if FHA considered its paper would be marketable at a lower rate than 4½ per cent, the rate would be reduced. Yet the VA continues to hold a 4 per cent rate (it has the authority to go to 4½ per cent) for a mortgage which is not as attractive as an FHA insured loan. The VA loan frequently is for 100 per cent of value as against a maximum of 90 per cent in FHA. The mortgage is only partially guaranteed (not over 50 per cent) and if over $8,000 in total amount, less than 50 per cent is guaranteed."

Mortgage men everywhere have been impressed with the startling ignorance of the public—and even men in the government in Washington—of just what the 4 per cent rate actually is. It isn't 4 per cent at all. This lack of understanding even extends to an ignorance of the difference between an investment in a mortgage and an investment in a bond. It is a regrettable fact that so few people understand the tremendous amount of detail work involved in selling, servicing and owning a mortgage as contrasted to almost any other type of investment.

But members of the house banking and currency committee heard it explained to them when Mr. Clarke took time to detail just what happens.

He first explained that the veterans are interviewed, credit information secured, appraisals made, photographs taken and then the complicated forms of the VA processed. The average cost for this is not less than 1 per cent of the average loan—and, under law, these expenses cannot be charged against the veteran.

After the loan is closed, he carefully explained, the correspondent handles the servicing, collections, monthly payments, pays taxes, insurance and other debts, and gets one-half of 1 per cent on the unpaid principal.

And then there is the home office expense. The investor must review and underwrite each loan submission, and, here again the cost averages around one-half of 1 per cent. Then there is the home office servicing. The investor must keep all records of payments. The cost of this accounting and servicing is around one-half of 1 per cent.

Then Mr. Clarke showed the congressmen what it comes down to in the end. For acquisition the correspondent has a one per cent cost and the home office one-half of 1 per cent based upon the 10 year type of a loan. These together, divided over an estimated 10-year life of a mortgage cost .015 per cent per year. In the servicing the correspondent has a .50 per cent cost and home office is the same. Add it up, he said, and it amounts to 1.15 per cent which, deducted from a 4 per cent gross, VA interest rate, leaves a net yield of 2.85 per cent.

"When you consider that high-grade bonds may today be bought in quantity to yield 3 per cent and over, the disadvantage of a 4 per cent loan is apparent," Clarke said.

"This disadvantage can best be illustrated by comparing a five million dollar investment in bonds which is one transaction with but two interest and principal bookkeeping entries a year with an equivalent five million dollar investment in 501 VA mortgages. Using an average loan of $7,500, a five million dollar purchase of VA loans would mean the acquisition of 665 individual mortgages with the consequent appraisals, etc. of that many separate parcels of real estate, and because collections are made monthly 7,992 bookkeeping entries a year. To justify this work the net yield on mortgages should be higher than on high grade corporate bonds.

"Because of the low net interest yield on a VA mortgage, the program under Section 501 would have failed by this time if it had not been for the market supplied by FNMA."

Rodney Lockwood, president of the National Association of Home Builders reflected the same general view:

"Either the FHA interest rate should be lowered or the VA rate raised, or some middle ground determined upon at which to set a standard interest rate," he said. "It is our recommendation that the Congress provide that the interest rates on VA and FHA loans be standardized at a uniform rate by agreement between the administrator of Veterans Affairs and the FHA Commissioner or in the event of their inability to so agree, by the White House. The Congress should write a provision into this bill directing that this be done."

SET NEW HIGH RECORD FOR MBA MEMBERSHIP

Even though 1949, particularly the first half, has been a year of fluctuating business conditions with a certain amount of uncertainty, MBA's Membership Committee, headed by Aubrey M. Costa, vice president, Southern Trust & Mortgage Company, Dallas, set an all-time high record for new members secured. Total for the Association's fiscal year closed August 31 was 174, compared with 165, the previous peak year. Total MBA membership is now 1335. Recent new members admitted:

DISTRICT OF COLUMBIA, Washington: The District, The Lawyers, The Washington Title Insurance Company

FLORIDA, West Palm Beach: Anderson & Carr, Inc.

ILLINOIS, Chicago: Continental Assurance Company

INDIANA, South Bend: Tower Federal Savings & Loan Association of South Bend

KANSAS, Topeka: The Davis-Wellcome Mortgage Company

LOUISIANA, Alexandria: M. C. Gehr

MASSACHUSETTS, Brookline: The Brookline Savings Bank

Worcester: Worcester Mechanics Savings Bank

MICHIGAN, Detroit: Central Mortgage Company; Standard Savings & Loan Association

MINNESOTA, Minneapolis: Geo. C. Jones Co.

MISSOURI, St. Louis: Mercantile Mortgage Co.

Webster Groves: The Reliable Life Insurance Company

NEBRASKA, Omaha: Byron Reed Company, Inc.

NEW JERSEY, Wildwood: Seaboard Fidelity Company

NORTH CAROLINA, High Point: Curtis Smithdeal, Incorporated

PENNSYLVANIA, Philadelphia: The Germantown Fire Insurance Company

TEXAS, Austin: O. P. Lockhart Company

WISCONSIN, Madison: Madison Investment Company

Oshkosh: Wisconsin National Life Insurance Company